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EMPLOYMENT INFORMATION SERIES

REDUNDANCY AND RE-EMPLOYMENT SUCCESS

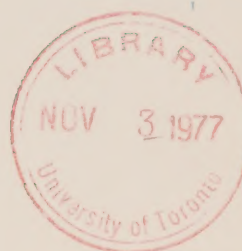
A Survey of Research

Number 11



Ministry of  
Labour

Research Branch  
Toronto, Ontario





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REDUNDANCY AND RE-EMPLOYMENT SUCCESS

A Survey of Research

Number 11

by  
I. Welton

Research Branch  
Ontario Ministry of Labour  
January 1975

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## INTRODUCTION

The current legislation in Ontario on advance notice of employment termination<sup>1</sup> was introduced in January 1971. Recently, the Ministry of Labour has been engaged in an extensive review of the impact of this legislation. The present paper was originally prepared as a background document to guide policy formulation, and this consideration has influenced to some degree the selection of references discussed in the paper. A considerable expansion in the literature on the subject of termination of employment and job redundancy in recent years made some selectivity inevitable in any case. Whilst this survey is not exhaustive, it does present a representative view of those studies which have sought to relate post-redundancy re-employment experiences to a number of characteristics of terminees and to certain government policy instruments.

The range of variables which potentially could exert an influence on post-termination employment experiences is very wide. Here, they will be discussed under four major headings:-

- a) Employment conditions in the local labour market;
- b) The personal characteristics of redundant workers;
- c) The use of advance notice periods and the job-search strategy employed;
- d) The influence of financial assistance provided to terminees (e.g. severance pay, unemployment benefits, etc.);

These categories are not mutually exclusive. A number of researchers have sought to isolate the independent influence of several explanatory variables on post-termination employment experiences by utilizing multiple-regression analysis. All statistical studies of this type tend to encounter difficulties in adequately separating out these independent effects, and those covered in this paper are no exception. However, the use of such techniques has yielded some valuable insights into the post-termination re-employment process, and therefore these studies are discussed in some detail in an Appendix to this paper.

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1. The Employment Standards Act, R.S.O. 1970, Part II and Regulation 251.

The post-termination employment experiences of displaced workers will be examined mainly with reference to the duration of the period of unemployment between the loss of one job and the acquisition of another. This is the conventional approach followed by most researchers, although in itself it fails to consider several important questions. For example, how the new job compares with the old one in terms of such characteristics as promotion prospects, pay, fringe benefits, job satisfaction, and so on. Accordingly, where research studies provide information on these topics, this evidence will also be examined here.

The major aim of the paper is to focus attention on a range of factors which have a bearing on the job-finding success of the individual worker in a termination situation. One limitation of this survey is reflected in the rather brief discussion of local labour market conditions in the first section. A more general consideration of localized imbalances between labour supply and demand, and their implications for the redeployment of displaced workers, largely lies outside the scope of this paper. The problem is to some extent recognized in the present advance notice of termination legislation in Ontario through the obligation placed on employers to notify government authorities, in advance, of impending large - scale terminations. This provision is an integral part of the legislation and its importance, perhaps, cannot be overstressed. However, it is clear that a detailed examination of this facet of the regulations would eventually lead us into more general areas of government economic policy and away from the immediate purpose of this paper.

Finally, the reader is urged to exercise a measure of caution in interpreting the research results. The studies discussed throughout the paper derive from Canadian, U.S. and British sources. It is not immediately obvious that evidence from one area is necessarily equally applicable in the different economic, social and institutional environment of another jurisdiction. Nevertheless, as we shall see, there are a sufficient number of similarities in the results obtained to provide a firm basis for drawing out a number of important conclusions.

#### SUMMARY OF MAJOR CONCLUSIONS

##### Employment Conditions in the Local Labour Market

1. The availability of alternative job opportunities is obviously a pre-condition for re-employment success, although it is certainly not a sufficient condition to



guarantee a speedy allocation of the labour resources released in a termination situation; i.e., even if job vacancies exist, various impediments in the labour market are likely to prevent the efficient re-allocation of labour resources through operation of the "market mechanism" alone.

#### The Influence of Personal Characteristics on Re-Employment Experiences

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2.                There is a general consensus in the research literature that age is the single most important (measureable) characteristic associated with re-employment success; it appears to influence both the supply and demand functions for labour.
3.                Other important determinants of re-employment success include skill-level, marital status and family responsibilities, length of service and educational attainment. However, it is often difficult in practice to separate the effect of the latter two factors from that of age because these variables are usually strongly correlated with each other.
4.                Re-employment difficulties are particularly evident for those workers displaying an unfavourable combination of characteristics associated with labour market "disadvantages": e.g., combination of above-average age, long service with previous employer, low educational attainment and possession of few transferable skills. Several studies have suggested that such an unfavourable combination of characteristics is found more frequently amongst redundant worker samples than within the employed labour force as a whole.
5.                Workers experiencing a genuine "loss" as a consequence of redundancy tend to lose simultaneously on several counts; e.g. longer transitional unemployment periods, greater loss of wages in first post-redundancy job, greater loss of "job satisfaction", downgrading in skill-level, increased proneness to further redundancy in future, etc. Moreover, redundant workers are more likely to "lose" on all of these measures than are voluntary job-leavers.

#### Job - Search Strategy and the Use of Advance Notice Periods

6.                Where advance notice of termination is provided, in general the majority of workers appear to make some use of the notice period for job-search. Moreover, use of notice

periods for this purpose is associated with increased job-finding success. This finding is consistent with the proposition that provision of advance notice may serve to reduce the period spent "between jobs".

7. There is some circumstantial evidence to suggest that those workers with personal characteristics associated with potential re-employment difficulties are less likely than others to make maximum effective use of notice periods for job-search. This may be partly a consequence of a "discouraged" attitude to job-search (especially by older workers). It also appears to be connected with high expectation of recall, and the practice of making severance payments contingent upon serving notice periods in full (both of which, in general, are most important for high seniority workers).

8. The decision to use notice periods for job-search is not closely connected with the length of notice provided. Moreover, once this decision has been made, there is no evidence to suggest that increases in length of notice (possibly beyond a certain minimum duration) result in corresponding increases in job-finding success.

9. Few studies have sought to relate the nature of the job-search process to re-employment success. The limited evidence available indicates that an early start to job-search, an intensive search campaign, and choice of a search-strategy which emphasizes willingness to accept whatever job opportunities are currently available, all aid speedy re-employment. However, none of these factors appear to be closely related to length of notice.

10. From the evidence assembled in this section it appears reasonable to draw the inference that advance notice periods are of positive but perhaps limited usefulness in aiding individual job-search, and thereby significantly improving re-employment prospects. This observation in no way detracts from two other possible justifications for relatively long notice periods, neither of which has been extensively explored in this paper:-

- viz.
- a) To allow time for implementation of joint government/trade union/employer re-employment assistance programmes;
  - b) To provide time for "personal adjustment" to redundancy for certain groups of workers e.g. older workers.



11. Most research studies indicate that provision of advance notice is often not particularly costly to employers (in terms of induced increases in absenteeism and labour turnover, or decreases in productivity, during notice periods). This finding appears to contrast with the views of many employers on this matter. However, the research studies cited in this paper mainly cover situations where the notice periods were determined at managerial discretion, and it was possible to adapt the length of notice to suit the technical and economic requirements of the enterprise. There is no substantial body of published evidence by which to judge whether the conclusions reached on the costs of providing notice remain valid where a minimum permissible notice duration is laid down in advance by legislation.

#### The Influence of Severance Pay and Other Financial Factors on Job Acquisition

12. Financial losses experienced by redundant workers appear to be closely connected with age, length of service and previous pay level. Thus, a scale of severance payments based jointly on these three criteria produces a compensation system which in general yields larger payments for those suffering the greatest losses.

13. There is no clear statistical evidence linking provision of severance pay with longer post-termination unemployment periods. By this measure, severance pay does not appear to constitute a disincentive to workers to seek alternative employment; it is certainly less influential in this respect than provision of earnings-related unemployment benefits.

14. However, there is some evidence of a qualitative nature to suggest that provision of severance pay may inhibit job-search during the notice period; more generally, workers under no great financial pressure to find new employment quickly tend to be more selective in the type of work they seek and are more willing to refuse specific job offers. The apparent conflict between this statement and the statistical evidence mentioned above has been "explained" largely as follows:-

- i) The high degree of correlation between severance pay and age (or length of service) makes measurement of the precise influence of severance pay alone difficult;
- ii) In examining financial pressures on terminees and their influence on job-search, it is

necessary to consider all sources of finance (income and net liquid assets) in relation to expected future employment income. Examination of severance pay or unemployment benefits in isolation is potentially misleading.

15. Any evaluation of income protection measures for terminees must attempt to "balance" the positive and negative repercussions of such a policy on labour-market readjustment; e.g., income protection may provide basic income support where no jobs are available, or it may allow terminees to resist being forced into "substandard" employment out of economic necessity. On the other hand, in certain circumstances such schemes may serve to perpetuate "unrealistic" job and income expectations and to slow down the labour-market adjustment process.

## CHAPTER II

### EMPLOYMENT CONDITIONS IN THE LOCAL LABOUR MARKET

An obvious pre-condition for the successful re-employment of a terminated worker is the existence of alternative job opportunities in the area in which job-search takes place. Normally this will be in the immediate locality of that person's residence, more especially in a period of uncertainty for a worker following redundancy. Experience has revealed that in these circumstances most workers are unlikely to relocate in order to seek new employment. This statement may be qualified where the worker has a definite job to go to in the new locality - for example, under the terms of a company plant transfer scheme - but even then it does not appear to be usual for the majority of workers to move, although this decision may be dependent to some degree on characteristics such as occupational status, educational level, number of years of residence in present locality, etc., (e.g., see Lipsky, 1970).

The single plant case-study approach does not lend itself to a proper evaluation of labour market factors in most situations, because it fails to control for the effects of differences in employment conditions between labour markets. Most of the North American studies which have attempted a systematic evaluation of the relative strengths of the various factors which influence the duration of post-termination unemployment have, in fact, been



of the single plant case-study type. As a result, it is not surprising that, in general, they have tended to concentrate most attention on the personal characteristics of terminees. Whilst it is obvious that job opportunities must be available if workers are to find new employment following termination, it is equally obvious, from the results of many of these studies, that in itself the existence of such opportunities provides no guarantee that displaced workers will be re-absorbed into employment. Wilcock and Franke (1963) describe a high level of labour demand as a necessary but not sufficient condition for re-employment.

Two of the studies described in greater detail in the Appendix to this paper do introduce into their analysis a consideration of labour market factors. Dorsey (1967), examining a plant closure in Plainfield, New Jersey, includes in his multiple regression equation an "area impact" variable designed to measure the localized effects of the closure on the various sub-markets within the area from which the company had previously drawn its labour force. This variable proved to be a significant indicator of the duration of post-termination unemployment, although the particular circumstances surrounding the closure were such as to cast some doubt on whether the "area impact" variable truly measured the independent effect of labour market factors. For example, Dorsey discovered strong localized employer resistance to hiring workers displaced by the closure because of their past reputation in the area as "troublemakers".

MacKay and Reid (1972), in their study of redundancy in the West Midlands engineering industry in England over a two-year period, were able to include a consideration of the influence of changing employment conditions in the region during the period under review. A number of different indicators were used to measure employment conditions, but only one showed a significant connection with duration of post-termination unemployment viz. percentage job vacancies in the West Midlands region. Several authors have recently argued that this type of measurement is currently a more accurate indicator of labour market pressures than the more traditional one based on unemployment levels.

### CHAPTER III

#### THE INFLUENCE OF PERSONAL CHARACTERISTICS ON RE-EMPLOYMENT EXPERIENCES

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##### Age

Virtually all research studies on the subject point to age as the single most important determinant of post-termination employment experiences; generally speaking, the older a terminated worker is the longer he takes to find a new job. A few specific examples will suffice to demonstrate the importance of this variable:-

- a) MacKay and Reid (1972) found that workers aged 29 years or less suffered an average of 5 weeks' unemployment following redundancy, whilst workers aged 55 years or more were unemployed for almost 26 weeks on average;
- b) In the Kelvinator study, (O'Connor, 1970), a survey conducted 6-7 months after shutdown revealed a 10.7% unemployment rate amongst terminees in the 25-39 age group, and a rate of 41.9% in the over-50 age group (the average rate for all ages was 27%);
- c) In the Studebaker shutdown (Palen and Fahey, 1968), approximately four months after closure, unemployment amongst the terminated workers ranged from 27% for the under-34s to 87% for the over-60s;
- d) Finally, Lipsky (1970), studying the closure of a General Foods plant in Massachusetts, found that on average under-25s suffered 6 weeks' unemployment, whilst the corresponding figure for over-55s was 23.6 weeks.

It is clear from these examples, and from many others which could also have been quoted, that age has a very significant influence on post-redundancy unemployment. Some authors have pointed out, however, that whilst age tends to be positively associated with the duration of such unemployment, the relationship may not be a linear one, i.e., the real influence of age is felt particularly strongly only beyond certain



"threshold" points. MacKay and Reid (1972) suggested that age 30 years represented a minor threshold, and age 55 years a major one. Other writers have suggested rather different limits but have added their support to the "threshold" principle - for example, Parker et al (1971) and Portis and Suys (1970) cite age 40 years as an approximation to the threshold, whilst there is rather more general agreement that age 55 years, or possibly 60, may represent a particularly important "watershed". It is probable, of course, that the exact location of the "threshold(s)" varies somewhat according to the circumstances of the case - but it seems to be well-established that the influence of age on post-termination unemployment increases more than in proportion to the increase in age itself, although the relationship may be subject to discontinuities at certain points.

It is apparent that the importance of age as a determinant of re-employment prospects stems from factors associated with both labour supply and labour demand. Thus de facto age discrimination by employers is often alleged to be one of the consequences of the widespread application of "arbitrary" selection standards for new recruits, whether these be purely age-related (based, for example, on the rationale that older workers may be less flexible, slower to learn new techniques, etc.) or based on educational attainment (which often has the practical effect of operating against the interests of older workers because of the frequently-found connection between age and formal educational qualifications). On the supply side there is some evidence to suggest that older workers, when seeking a new job, tend to be pessimistic about their employment prospects almost before they begin to search, and are easily discouraged from pursuing job-search activities as diligently as may be necessary - see for example the Kelvinator studies (Portis and Suys, 1970; Portis, Lenoir and O'Connor, 1971).

To the extent that the older worker may have held his previous job for a long period of time, he may be "out-of-practice" as compared with younger workers in terms of being able to implement an effective job-search strategy; also he may fail to adopt a "flexible" approach to the problem - for example, some older workers express little interest in training when opportunities are offered, and they are often occupationally, industrially, and geographically less mobile than their younger colleagues (e.g. Swift Canadian Manpower Readjustment Committee Report, 1970). For a more general discussion of the employment problems of older workers following displacement, see, for example, Sobel and Wilcock (1966) - they point out that the degree to which employers make use of "artificial" hiring standards is likely to

be dependent on the state of the labour market (when labour is scarce, these standards may be substantially relaxed).

### Seniority

Obviously the influences of age and of seniority on re-employment prospects are to some extent connected because of the close association between these two variables, although insofar as they are separable, it is age which appears to be the dominant factor. By definition, a long-service worker has been out of the job-market for some years and he is likely to require a certain amount of time in order to redevelop the informal contacts which appear to be a very important source of information for prospective job-seekers. The problems of the long-service employee are likely to be exacerbated where his former occupation was one in which job skills, acquired by virtue of experience, were of particular importance, i.e. where his previous status was dependent on his possession of certain specific (non-transferable) job skills whose value in the general labour market is potentially much lower than was the case when with his former employer.

### Skill Level

Amongst manual worker groups, the semi-skilled are the most likely to possess non-transferable job skills. There is some empirical evidence to support the proposition that this group may experience greater re-employment difficulties than either the skilled or unskilled, although this evidence is certainly less clear-cut than that concerning the influence of the age variable. Dorsey (1967) found that semi-skilled workers suffered longer post-termination unemployment periods than did the unskilled, in his sample of terminees (by approximately 2 weeks, on average). This he attributed largely to the former group's "unrealistic wage expectations" in relation to the now-lowered value of their acquired job skills, although a further factor may have been the predominance of semi-skilled workers in the terminated group as a whole. In contrast, MacKay and Reid (1972) found that the unskilled workers in their sample experienced the greatest degree of unemployment (on average, the skilled terminees were unemployed for 9.7 weeks; the semi-skilled for 12.6 weeks; and the unskilled for 20.5 weeks).

It is probable that the success of semi-skilled workers in obtaining new employment is dependent in part on the relative composition of local industry. Where the number of semi-skilled jobs available is low, it seems likely that semi-skilled workers will experience great difficulty in securing



re-employment, unless they are able to adapt quickly to the fact that they may find it necessary to take a lower-skill job (with a consequent reduction in income). Such considerations may at least partially account for the differences, between the two studies cited, in the relationship of skill-level to re-employment success. Virtually all studies are agreed that of the manual worker groups, the skilled are likely to experience the least unemployment following termination.

#### Educational Attainment

Palen and Fahey (1968) found educational level to be more important than either previous wage-level or job classification, and second only to age, as a determinant of post-termination unemployment experiences. Lipsky (1970) noted that those with less than 12 years of schooling experienced, on average, 5½ weeks more unemployment than those with more than 12 years of schooling. However, the educational variable is usually related to some degree to other factors such as age, occupation, wage-level, etc., and in Lipsky's study at least, the independent effect of educational level was negligible.

#### Sex, Marital Status and Family Responsibilities

Several authors have pointed to one or more of these factors as being important determinants of re-employment success. Thus, married men tend to exhibit shorter unemployment duration following termination than single men, whilst the reverse is generally true for women (e.g. see Dorsey, 1967). Lipsky (1970) found unemployment duration to be inversely related to number of dependents. It seems probable that the influence of this collection of "family characteristics" variables is closely linked in practice with that of financial factors (for example, the existence of alternative sources of income including that from a working spouse or children, the availability of unemployment and welfare benefits, etc.). We return to this question in a later section of the paper.

#### Personal Characteristics and Loss of Income in Post-Redundancy Employment

In the introduction to this paper it was pointed out that duration of post-termination unemployment was not the sole criterion by which to judge the re-employment experiences of terminated workers. Several studies have revealed that certain groups of workers, although they may eventually find another job, do so only at the expense of accepting employment offering inferior terms and conditions when compared with the "redundancy job".

The most easily measured characteristic upon which to base comparisons between jobs is in the wage received. There is some evidence to suggest that those workers who experience the longest post-termination unemployment periods also tend to experience the greatest loss in employment income; i.e., comparing the wage received in the first post-termination job with that previously obtained in the "redundancy job."

The connection between unemployment duration and loss of wages when finally re-employed partly derives from the strong association of each of these variables with age. At Kelvinator, (Portis and Suys, 1970), of the workers aged less than 40 years, 46% gained and 33% lost in wages (comparing their new wage with that at Kelvinator); but for the over - 40 age group, only 14% gained whilst 67% lost (the average figures for all age groups combined were 29% and 51% respectively). In particular, 23% of the over - 40s lost at least 75 cents per hour, whilst only 4% of the under 40s were in this position. These figures may even understate the real problem because they related only to those workers who had found a new job within one month of the shutdown - many of the older workers, especially those over 50 years of age, were still unemployed at that time.

Parker et al. (1971) also found a strong correlation between age and loss of employment income. For example, in the 20-29 years age group, 53% of those who had been made redundant and had found another job gained in terms of income, whilst 25% lost. For the 60-64 years age group, the figures were almost exactly reversed - 22% gained income and 52% lost income. The same study also reveals that occupational level is another important factor influencing loss of income. Thus, professional and technical, clerical and skilled manual workers were all net income "gainers" (i.e. relatively more workers gained than lost in income terms), whilst senior managers and semi-skilled workers were net "losers". However, a more detailed breakdown of these figures reveals that it may be dangerous to generalize too widely on the basis of broad occupational groups. Within the skilled manual category, for instance, electricians and carpenters gained considerably in income, whilst fitters lost quite heavily.

The detailed statistical evidence produced by Parker and his colleagues adds another dimension to the discussion of post-termination employment experiences. It confirms the link between certain personal characteristics and job-finding success, and suggests that some groups may suffer an accumulation of "losses" following termination (through the association between unemployment duration and loss of employment income when a new job



is subsequently found). There also appears to be an association between each of these factors and loss of pension rights and other "fringe benefits".

However, it is clear that factors other than personal characteristics play a role in the re-employment process. For example, within Parker's sample of redundant workers, whether persons are grouped according to age, occupation, length of service or previous pay level, in all categories there is a substantial minority of workers (at least 20-25%) who actually obtained a higher paying job following redundancy. Moreover, any losses incurred cannot be wholly attributed to redundancy as such. Parker shows that non-redundant job leavers (including those who changed jobs voluntarily) do not always move into "better jobs". In particular, more than 40% of all non-redundant semi-skilled job leavers moved into unskilled work initially; this figure is comparable to the proportion of redundant semi-skilled moving into an unskilled job. The research conducted by MacKay and Reid on job-search strategy and job expectations (see Appendix to this paper) suggests that initially some workers may deliberately take lower paying jobs following termination in order to provide a "platform" from which they can move on to better paying and more suitable jobs when the opportunity presents itself.

#### The Composition of Redundant Worker Groups

It was suggested earlier that whilst age appears to be the dominant personal characteristic associated with post-termination employment experiences, its effect on re-employment prospects may be potentially even more serious when combined with the operation of other "disadvantageous" factors (for example seniority, low educational attainment, lack of transferable skills, etc.). It is relevant at this stage to ask whether the "typical" redundant worker, if such exists, exhibits to any marked degree such an unfavourable combination of characteristics - in other words - do redundant worker groups contain a disproportionate number of workers who are likely to experience major re-employment difficulties?

MacKay (1972 O.E.P.) noted that his sample of redundant male workers in the engineering industry in the West Midlands of England contained a disproportionate number of older workers (especially those over 50 years of age), of long-service workers, and of semi-skilled workers (disproportionate, that is, in relation to their relative numbers in the engineering industry in Great Britain as a whole - MacKay was unable to make the comparison with the most appropriate group, namely the West Midlands engineering industry work force, because of a lack of data).

Amongst the female workers in the sample, there were a disproportionate number in the middle age group (30-50 years). By way of contrast, MacKay referred to an earlier survey in the same industry and region which revealed that only 6% of male voluntary quits had more than 5 years' service.

Several plant-level case studies have revealed a similar imbalance within the redundant worker group - for example:-

- a) At Kelvinator (Portis and Suys, 1970), the terminees had a relatively high length of service (15 years on average), a high average age (44 years), a relatively low educational level, and had earned a wage which was above average for the locality;
- b) At the Swift Canadian Company plant in Montreal (Swift Canadian Manpower Committee report, 1970) the workers had a relatively high age (average 50 years, with no one under 30 years of age), high seniority (average 23 years, none with less than 11 years of service), a low educational level, few transferable skills (mainly semi-skills specific to the meat packing industry) plus an above-average wage for the industry;
- c) At Studebaker (Palen and Fahey, 1968) most of the terminated workers were semi-skilled, more than half were over 50 years of age with an average of 20 years of seniority, and again the company had long been a local "wage-leader".

It cannot, of course, be pretended that the data from an individual plant study exemplifies the "typical" case. The plants studies are unlikely to have been chosen at random, and may even, in some cases, have been deliberately selected simply because they represented and illustrated some of the more severe problems associated with redundancy. Nevertheless, the studies mentioned, when added to several other examples found elsewhere, represent a considerable accumulation of at least circumstantial evidence to suggest that this particular question merits closer attention.



A further point should also be mentioned - there is some evidence to suggest that redundant workers in general find re-employment more difficult than do non-redundant groups who have terminated their employment for other reasons. For example, MacKay (1972, O.E.P.) found that for Britain as a whole the median unemployment period for the registered unemployed at the time of his survey was 3 weeks, whilst for his sample of redundant workers it was 8 weeks (and the West Midlands region is a relatively prosperous and high employment area by British standards). Parker and his colleagues (1971) showed that redundant workers on average spent twice as long unemployed between jobs as did non-redundant job-leavers (8 weeks, compared with 4 weeks); relatively more redundant than non-redundant workers lost employment income when changing jobs (35%, compared with 22%), as well as losing more in terms of such factors as pension rights and fringe benefits, "use of skill", "job satisfaction", "security", etc.

It is, of course, not surprising that the redundant have greater re-employment difficulties if they tend to be "over-representative" of the type of "disadvantageous" personal characteristics mentioned above. The voluntary leaver, it could be argued, is generally self-selected and is probably more prepared for leaving his job (and may have made alternative employment arrangements beforehand). Nevertheless, it is interesting to note that in Parker's sample redundant workers received an average five weeks of formal notice of termination, whilst approximately two-thirds of them, on average, received an additional five weeks' informal "warning" prior to the issuance of formal notice in writing.

There are several sound theoretical reasons why redundant workers should not necessarily be typical of the working population as a whole. For example, if management suspects that a closure or reduction of the plant work force is possible in the fairly near future it may suspend recruitment of new workers and this, allied with the probability that younger, short-service workers are likely to begin leaving voluntarily in larger numbers than older established groups, may tend to increase the average length of service of the work force as redundancy approaches (at Kelvinator, the majority of workers leaving during the notice period were young, short-servers). Similarly, a long-declining industry or region is likely to exhibit an ageing work force. If a plant has been in economic difficulties for some time, and earlier intermittent redundancies have occurred, operation of a seniority system will have tended to produce a relatively more senior (and aged) labour force, but when complete closure occurs that seniority system no longer offers any protection or security to even the longest-serving worker. Palen and Fahey (1968) expressed the problem thus, when commenting on the Studebaker shutdown:-

"Many of the workers were older men with high seniority, since these were the men most likely to be retained over the lean years prior to the final shutdown". (p. 237).

### Summary

We have identified a number of personal characteristics associated with re-employment experiences following involuntary termination from employment. It is suggested that whether these experiences are measured in terms of post-redundancy unemployment duration, or in terms of comparing the "quality" of the new job eventually obtained with that of the old, several of these characteristics tend to recur as explanatory variables. This is perhaps best illustrated by the experiences of older workers, which reveal a combination of post-redundancy problems.

For example:-

- a) Older workers are less likely than younger workers to find new employment at all - MacKay (1972 O.E.P.) found some evidence of a "discouraged worker" effect, especially amongst the over-55s, and suggested that many workers in this age group who were classified as "retired", "continuously sick", etc., were in fact better categorized as "concealed unemployed";
- b) If they do eventually find another job, they are likely to have suffered a relatively long unemployment period since termination;
- c) They are more likely to experience a reduction in wages in the new job as compared with the old one, plus a relatively greater loss in pension rights, fringe benefits, job satisfaction, etc.
- d) They are more prone than other workers to suffer further redundancy in the future - Portis and Suys (1970) noted that 7-9 months after the Kelvinator shutdown approximately 25% of the then unemployed over-40s had in fact been employed at some stage subsequent to termination but had since left their job again, the vast majority because of a further redundancy. On the other hand, MacKay (1972 O.E.P.) felt that the major difficulty of terminees in general



was in getting the first post-termination job, and that subsequent job changes were largely voluntary.

In addition, there is some evidence to suggest that redundant worker groups may not necessarily possess characteristics typical of the working population as a whole. In particular, and especially where redundancy results from a complete shutdown of operations in an establishment, the terminated group may tend to be over-representative of several of the characteristics most likely to be associated with subsequent re-employment difficulties.

## CHAPTER IV

### JOB-SEARCH STRATEGY AND THE USE OF ADVANCE NOTICE PERIODS

#### Introduction

In the North American literature on the subject, the traditional argument for relatively long advance notice periods has stemmed largely from the belief that when a large-scale labour displacement occurs, assistance programmes may be required to ease the resultant labour market adjustment problems. Thus, Shultz and Weber (1966), in recounting their experiences as members of the Automation Fund Committee at Armour and Company, made several observations about the amount of advance notice required in such a situation (the Committee was instituted to aid workers displaced by a substantial company re-organization drive). In particular, they felt that although 90 days' advance notice was "useful" it did not really provide sufficient time for the full and effective implementation of assistance programmes. They therefore recommended "... at least 6 months and preferably one year's advance notice" for this purpose, especially where the displaced workers required substantial job re-training or upgrading of their basic educational attainment.

Another example of this view is to be found in the Report of the Task Force on Labour Relations in Canada (1968). There, legislation was recommended to require employers to give a minimum of 6 months' notice (to government and trade union representatives) of all "... technological and related changes likely to lead to significant labor displacement". The justification for

this policy was based largely on the perceived need to develop an active labour market policy to facilitate job mobility and to institute community dislocation programmes.

#### The Advance Notice of Termination Legislation in Ontario

Although it provides for substantially shorter notice periods than those recommended above, the Advance Notice of Termination legislation in Ontario recognizes some of these problems and requires employers to notify the government in advance of anticipated major displacements of labour. However, the notice schedules were also designed to achieve much more than this - in particular, it was hoped that formal notice of termination to the individual employees affected would enable them to adjust their personal circumstances to their forthcoming change in employment status, and would provide time for the employees to institute job-search activities prior to actual termination.

#### Factors Associated with the Use of Notice Periods for Job-Search

A study conducted by the Research Branch of the Ontario Ministry of Labour on the use of advance notice of termination for job-search generated much useful information on this aspect of notice periods (see Stiebert, 1973; and McKenna, 1973). The study covered 15 "mass" termination situations in Ontario between October 1971 and April 1972, plus a rather less representative selection of "individual" terminations (1179 questionnaire returns were received from "mass" terminees and 845 from "individual" terminees). Some of the more important results included the following:-

- i) Over 70% of the "mass" terminees made some use of their notice periods for job-search (the corresponding figure for "individual" terminees was lower at 56%);
- ii) Amongst "mass" terminees, whose notice periods ranged from 8 to 31 weeks, the decision to use the notice period was not related in any systematic way to its length. It is possible, of course, that a relationship between use of notice periods and their duration might hold below the 8-week level. The difference in use of notice between "mass" and "individual" terminees could be cited in support of this proposition. However, the non-representative nature of the "individual" terminations, plus the observed influence of several other factors



on use of notice periods, casts some doubt on this possibility;

- iii) Use of notice periods was related to re-employment success in both types of termination (thus, 52% of all terminees using the notice period to seek new employment had found jobs by the time the survey was conducted; less than 40% of those not using the notice period had found new employment);
- iv) Amongst those who found new employment, those utilizing notice periods for job-search suffered shorter transitional unemployment (60% of notice-users found their new job within 2 weeks of termination, compared with 44% of non-users);
- v) Of those who used their notice periods and succeeded in finding new employment, 63% of "mass" terminees indicated that contacts made during the notice period were "useful" in finding a new job (the corresponding figure for "individual" terminees was 35%).

This study certainly suggests that if advance notice is provided, it will probably be used to some degree by a majority of persons. Moreover, by using the notice period for job-search, these persons are likely to significantly improve their re-employment prospects. There is some corroboration for this point of view in other studies. In the Kelvinator closure in London, Ontario (Portis and Suys, 1970), 5 months' advance notice was given, and 80% of the workers made use of this period for job-search. Again, those using the notice period fared better than non-users in terms of re-employment success (in fact, 26% of the work force left prior to shutdown, mainly during the early part of the notice period, presumably because they had already located new job opportunities; not only did they avoid a transitional unemployment period, but they were more successful than later leavers in finding new jobs with rates of pay comparable to those at Kelvinator). However, a study of a steel plant closure near Buffalo, New York, (Foltman, 1968) illustrates a somewhat contrasting experience with use of notice periods - despite advance warning of several months, only 36% of the production workers sought new jobs prior to shutdown.

Not only the manner in which notice periods are used for job-search, but the characteristics of those persons most likely to use them are important in assessing the contribution which

advance notice can make in easing labour-market adjustment problems. Unpublished material from the Research Branch study mentioned earlier indicates an inverse correlation between use of notice period and age within the 20-55 years age group (thus, 72% of the 20-24s used the notice period, but this proportion fell steadily down to 55% for the 45-54 years age group - the corresponding figure for the over-55s was only slightly higher at 57%). There was less variation in the relationship between use of notice period and length of service, at least for "mass" terminations - 76% of those with 11 years' or more service used the notice period, compared with 72% of those with less than 1 years' service, and 69% of those with 1-5 years' service. However, there was a markedly different pattern in "individual" terminations, with a sharp distinction occurring around the 5 years' service level - only 40% of those with greater than 5 years' seniority used the notice period, compared with almost 70% of those with less than 5 years' service.

It is likely that recall rights are an important factor in explaining these differences. In "individual" terminations the more senior workers may have a relatively high expectation of recall, but this possibly is diminished in a "mass" termination (of course, in a permanent closure situation recall is not a factor at all). Further support for this proposition is revealed by an analysis of the workers' stated reasons for not using notice periods; 28% of non-users in "mass" terminations cited "expectation of recall" as a major reason, whilst in "individual" terminations 64% gave this reason (note that the "individual" termination sample is heavily biased towards 2 companies where recall was a real possibility). In both types of termination situation, recall rights were a particularly significant factor in manufacturing firms.

Sampling deficiencies in the aforementioned study induce an air of uneasiness in drawing too sweeping a conclusion from this data. There is a considerable accumulation of evidence from other studies to suggest that older and more senior workers may fail to utilize notice periods very effectively for job-search, whether because of lack of recent practical experience of this process, inflexible job expectations, or an initially pessimistic or "discouraged" approach to the location of new jobs. An additional factor in some cases is the practice of making severance payments contingent upon an employee remaining with his employer until expiry of his notice period. This tends to discourage those with substantial severance pay entitlements (usually those with the longest service) from making an early start to job-search - this is perhaps well illustrated by the Kelvinator study.



### The Relationship Between Length of Notice Period and Re-Employment

There are surprisingly few other studies which have attempted to analyse extensively the usefulness of notice periods, and those already mentioned leave several questions unanswered. Fragmentary evidence from elsewhere indicates that any tentative conclusions, supporting the proposition that advance notice periods are of major significance in influencing re-employment prospects, may require some modification. In particular, there is very little evidence on the relationship between usefulness of notice periods for job-search and length of notice period; e.g., do longer notice periods appear to significantly improve re-employment prospects? Stiebert (1973) noted that his study revealed no clear connection between length of notice period and the proportion of workers using the period for job-search. This suggests that if a worker decides to use the notice period he will do so at a relatively early stage (however the notice periods in this study were quite long, with a minimum of eight weeks).

There is ample evidence from comparisons between single-plant case-studies to suggest that long notice periods in themselves certainly provide no guarantee that re-employment will quickly follow redundancy.

- e.g.
- i) In the Mack Truck study (Dorsey, 1967), 16 months' notice was given, yet 9-10 months after shutdown almost one-third of the labour force remained unemployed;
  - ii) At Kelvinator (Portis and Suys, 1970), 5 months' notice was given, yet 7-9 months after closure over 25% of the terminees were unemployed;
  - iii) In the Studebaker shutdown (Palen and Fahey, 1968) virtually no advance notice was given - 8 months after closure 32% were unemployed.

There is a remarkable consistency between these studies, despite the widely differing lengths of notice received. Obviously, this does not constitute proof that length of notice is unimportant, but it suggests yet again that a complexity of factors are involved in determining re-employment success, and that these factors may be powerful enough to override the effects of notice periods. Disappointingly, few studies have sought to examine the independent effects of length of notice. The most promising and systematic study of this kind (MacKay and Reid, 1972) revealed no connection between length of notice and duration of post-redundancy unemployment, but it did suggest that job-search strategy was important. Thus, an early start to search activities (prior to

actual termination), intensity of search (number of contacts made with prospective employers) and job expectations all emerged as significant influences on re-employment experiences - but none of these were strongly associated with length of notice period.

#### The Effect on Employers of the Requirement to Issue Advance Notice of Termination

It is possible, of course, that whatever the benefits derived by employees from advance notice of termination, these are provided only at considerable cost to the employer. The costs of advance notice have generally been held to include reduction of employee productivity, and production planning problems arising from increases in labour turnover and absenteeism during notice periods. However, most of the studies which have enquired into these questions have discounted their practical importance in most cases.

Weber and Taylor (1963) studied a total of 32 plant shutdowns in the U.S.A., in which the median advance notice period was 10 months. They noted that, in fact, the employers' costs in providing advance notice had been relatively low. In particular, production losses were inconsequential, and employee quit-rates during the notice period were not high. The authors attributed this latter phenomenon to a combination of lack of alternative job opportunities in the local labour market area, the possible forfeiture of severance pay entitlements by early leavers, and "personal inertia" on the part of employees scheduled for termination. In the few cases where quit-rates did increase during the notice period (largely amongst junior workers), the companies concerned managed to hire temporary staff, to call back previous terminees, or to use overtime work to cover production requirements.

Weber and Taylor pointed out, however, that the companies involved in the study were not chosen at random, and were not necessarily "typical". In almost all cases the lengths of notice periods were dictated by technical or market factors, and because these periods were well in excess of any contractual obligations, the companies were able to "tailor" them to suit the circumstances of the case. The sample, therefore, excludes many possible problem situations which could have arisen in more unpredictable cases.

Other studies tend to support the findings of Weber and Taylor on the costs of providing advance notice. Thus, Hershey (1972), in studying layoffs in 4 U.S. manufacturing

companies, concluded that "production efficiency", lateness and absenteeism were all largely unaffected by the provision of advance notice - the group serving notice performed favourably on all 3 counts in comparison with other workers in the same establishments who were not scheduled for layoff, and also with their own past records prior to announcement of layoff. At Kelvinator (Portis and Suys, 1970), production levels were largely maintained during the 5-month notice period, and losses of personnel were kept within reasonable limits (about 26% of production workers left before shutdown, but the loss of foremen was the most serious problem).

Of course, the employers' lack of major difficulties with premature quits during notice periods may simply be an adverse reflection on the usefulness of notice periods for employees - the more intensively notice periods are used for job-search, the more likely it is, perhaps, that workers will leave earlier than the company might wish. Nevertheless, the Kelvinator case reveals that notice periods can be reasonably useful to at least some employees without necessarily creating major inconveniences for the employer. However, it is interesting to note that all three studies mentioned suggest that the existence of severance pay schemes effectively diminished the desire of more senior workers to embark on an early start to job-search.

Despite research evidence which point to a different conclusion, it is clear that many employers believe advance notice periods are often detrimental to employee morale and to the efficient operation of the production unit. During the early part of 1974, the Research Branch of the Ontario Ministry of Labour conducted a series of interviews with employers in Ontario to examine their experiences with the Advance Notice of Termination legislation since its introduction in 1971. The results<sup>(1)</sup> reveal that one of their major concerns with the advance notice concept is the adverse effect it has, or could have, on employee morale and productivity whilst the notice periods are being served. Some employers claimed to have had first-hand experience of this phenomenon; several others felt it was a real possibility if they were ever required in future to issue notice beyond one or two weeks' duration.

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<sup>(1)</sup> Unpublished Research Branch Working Paper.



## Summary

Our conclusions on the usefulness of advance notice periods must be rather tentative. It appears to be true that some degree of advance notice is influential in the job-search process, especially if used intensively and relatively soon after initial notification; but the research literature yields little insight into the important policy question of whether there is an "optimum" length of notice period for this purpose. There is some doubt as to whether increased notice periods for otherwise "disadvantaged" job-seekers are of practical usefulness in aiding re-employment prospects. It is quite obvious that provision of advance notice is but one of a number of factors influencing the job-search and job-acquisition process, and it is possible that it is not one of the major determining factors.

We are on rather firmer ground in stressing the importance of advance warning of loss of job for purposes of personal, financial or psychological adjustment, although by their nature such "benefits" are not easily quantifiable. It is possible that for this reason alone, irrespective almost of the effects on job-search, longer notice for older or more senior workers may be justified. We have said little about long notice periods for purposes of allowing implementation of employment assistance programmes - relatively substantial advance warning is undoubtedly necessary to bring such programmes to fruition, but evidence on the usefulness of such exercises is conflicting. Some schemes have met with spectacular success, while others have failed to justify the efforts and finances invested in them.

The requirement to issue advance notice of termination undoubtedly imposes an extra cost burden on employers in most situations. However, the research literature on this subject strongly suggests that the extra costs incurred are in many cases rather small. This conclusion stands in contrast to the views of many employers. Several case-studies have shown that in a given termination situation it appears to be possible to strike a reasonable "balance" between benefits (to employees) and costs (to employers) associated with provision of an advance notice period. However, translation of this principle into an equitable uniform notice schedule for all termination situations is likely to prove extremely difficult. It seems probable that this can only result in some wide variations from case to case in the distribution of costs and benefits.

## CHAPTER V

### THE INFLUENCE OF SEVERANCE PAY AND OTHER FINANCIAL FACTORS ON JOB ACQUISITION

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#### The Rationale for Severance Pay

Severance payments have generally been regarded as providing some measure of financial compensation for the losses incurred by the employee when terminated from employment. Central to the justification for such compensation is the concept of "job property rights" i.e., the notion that a worker builds up a form of equity in his job by virtue of continued tenure, and that this equity is lost when the worker concerned is made redundant. It is well established in the research literature that terminees, in general, do suffer a real (and, for some, a considerable) loss in these circumstances, deriving from a variety of sources; e.g., loss of job security (including the increased possibility of exposure to further redundancy in future), loss of seniority rights and promotion prospects, loss of pension rights and other fringe benefits, loss of expected future returns to past investment in job-specific training, loss of future income, etc. Obviously several of these factors are not easily quantifiable - nevertheless, common to most severance pay schemes is the presumption that, however imperfectly, some financial value can be assigned to these losses.

Severance pay entitlements are usually predetermined according to a "rule-of-thumb" (e.g., graduated according to length of service with the employer). In their "idealized" form, therefore, they attempt to compensate purely for the lost value of the job, irrespective of employment experiences subsequent to termination. In practice, however, this distinction is not always maintained. For example, when legislation on severance pay was introduced in Great Britain in 1965 (The Redundancy Payments Act), a twofold justification for such a scheme was advanced. The major "economic" objective was to secure a more efficient utilization of manpower resources, by generating a greater degree of acceptance amongst workers of labour displacements resulting from economic and technological change. The major "social" objective was to compensate displaced workers for their loss of job property rights, but specifically excluding compensation for any transitional unemployment which might follow redundancy (the latter was covered by the introduction of earnings-related unemployment benefits in the following year). However, by including age as one of the criteria for determining severance pay

entitlement, the legislation implicitly recognized that further compensation for older workers was necessary given the likelihood that their obtaining another job would be particularly difficult.

Research by Parker et al. (1971) has indicated that the scale of severance payments, generated by the criteria of age, length of service and previous pay level, produces a ranking order in which magnitude of payment is closely related to actual losses in income, fringe benefits, pension rights and "skill utilization"; i.e., those suffering the greatest losses on these counts as a result of redundancy tended to receive the highest statutory severance payments, although no attempt was made to examine whether the payment came close to fully compensating for the losses incurred.

The "Disincentive Effect" on Job-Search of Severance Pay and Other Financial Benefits

Several authors have speculated that, irrespective of the merits of the case for compensation for loss of job property rights, provision of severance pay may be at least partly counter-productive in the sense that it constitutes a disincentive to recipients to seek alternative employment as quickly as might otherwise be the case. For example, some studies have suggested that the common requirement that a worker remains with his employer until expiry of his notice period, in order to become eligible for severance pay, is a partial explanation for the observed low level of early quits in many termination situations; e.g., see Weber and Taylor (1963), Portis and Suys (1970). This suggests that severance pay provisions may inhibit job-search during the notice period, and in view of the evidence linking an early start to job-search with re-employment success, it would seem reasonable to expect that receipt of severance pay might be connected with a longer duration of post-termination unemployment.

Unpublished material from an Ontario Ministry of Labour Research Branch study of terminations in Ontario in 1971-72 reveals that 57% of terminees in establishments with severance pay schemes used notice periods for job-search, whereas the corresponding figure in establishments without such schemes was 69% (however, no information was provided on which workers were eligible for payments or on the magnitude of the payments). The difference in use of notice periods between the two types of establishments was especially evident for those workers with more than 5 years' seniority (i.e., those most likely to be eligible for severance pay). Moreover, workers in establishments offering severance pay did experience longer post-termination unemployment periods, although, perhaps surprisingly, relatively more eventually found a new job (in the period between termination and the survey date).



In practice there is generally a positive relationship between size of severance payment and duration of post-termination unemployment, but this appears largely to derive from the common association of each of these variables with age and length of service. Thus Dorsey (1967), Lipsky (1970) and MacKay and Reid (1972) all noted that inclusion of severance pay received, in a regression model seeking to "explain" duration of post-termination unemployment, did not add to the model's explanatory power; i.e., the independent influence of severance pay was negligible. Parker et al. (1971) noted that the average period of unemployment following redundancy was similar for the "paid" and "unpaid" redundant (distinguished according to whether or not they received a statutory redundancy payment), although no attempt was made to isolate the independent influence of the redundancy payment in this case.

The lack of a clear statistical relationship between severance pay and duration of post-termination unemployment has mainly been explained on two grounds:-

- i) The high degree of correlation between size of severance payment and length of service (or age) makes it difficult to adequately isolate the independent effects of severance pay;
- ii) Severance pay is only one of several possible sources of income available to redundant employees - others include unpaid vacation pay due, refund of pension contributions, pay in lieu of notice, unemployment benefits, income from a working wife, etc. Thus, if financial factors do influence the speed with which alternative employment is sought and obtained, then the relevant comparison is probably between expected employment income and the present financial position of the terminnee and his family (including present income flow, outstanding financial obligations, net assets, etc.), and not with

severance pay alone. Thus, Lipsky (1970) found a clear positive relationship between receipt of "other income" and post-termination unemployment duration, although the amount of other income received was less significant.

Of course it is possible that severance pay simply does not influence post-termination unemployment. MacKay and Reid (1972) suggested that because severance pay is generally received irrespective of subsequent employment experiences, there is no compelling reason to believe it would strongly influence the choice between work and "leisure". On the other hand, unemployment benefits are specifically tied to continuing unemployment and thus could conceivably constitute a disincentive to seek alternative work. MacKay and Reid did in fact find evidence to support both of these propositions, although the disincentive effect of unemployment benefits was not substantial. Parker et al (1971) found that one in six of those interviewed who were in receipt of unemployment or other state benefits, admitted that they had found difficulty in obtaining a job which would yield a greater income than they received whilst unemployed. Approximately one-half of these persons had refused job offers for this reason.

The reluctance of several researchers to fully accept the statistical evidence that severance payments have little effect on post-termination unemployment duration, partly stems from the existence of an accumulation of non-quantitative evidence pointing to a contrary conclusion. Thus, Dorsey's study (Dorsey, 1967) of a plant closure, in which the workers received generous severance benefits, revealed that many of the workers themselves admitted to having refused job-offers largely because they were not compelled by their financial circumstances to accept them. Dorsey suggested that severance pay, in conjunction with receipt of unemployment benefits, was instrumental in perpetuating the "unrealistic wage expectations" of the redundant workers, most of whom were semi-skilled and had previously received a wage well in excess of other local rates of pay for their type of work. As unemployment duration lengthened and the workers' financial positions deteriorated, many gradually re-adjusted their wage expectations downwards and were forced to accept lower-wage employment.

There is a well established connection between marital status (or number of dependents) and job-finding success, and this has largely been attributed to the fact that those most

in need of employment income tend to search more thoroughly for a new job and are less willing to turn down specific job offers; e.g., Boase (1965), Lipsky (1970). MacKay (M.S., 1972), on examining interim job-holding by car workers on layoff, found that a disproportionate number of single men and men with three or more children remained unemployed for the duration of the layoff (the latter group suffered relatively less financial hardship whilst unemployed because they were in receipt of welfare and unemployment benefits partly tied to the number of dependents). Similarly, Birch and Gertz (1966) found a wide difference between the interim job-holding experiences of those who received, and those who did not receive, UIC and SUB benefits whilst on layoff from Ford's motor engine plant in Windsor, Ontario.

Of course, one of the justifications for unemployment benefits (and possibly severance pay also) is that it allows a worker to be selective in his choice of a job and to avoid being forced into "substandard" employment simply out of dire financial necessity. As long as the financial benefits available to terminees are generous enough to allow this kind of selectivity, there will be counter-allegations that the workers concerned have little incentive to accept the currently available jobs being offered. This would not necessarily be detrimental to the efficient re-allocation of labour resources if it meant that, within a reasonable period of time, workers could find work commensurate with their past experience and skills. However, not all terminees adopt this "waiting approach" to locating a suitable job. In fact, there is some evidence to suggest that workers willing to take lower-paying jobs immediately after termination are able to work their way up the "wage hierarchy" to eventually regain their previous position (see the discussion in Section I.5 of the Appendix to this paper). The choice between different job-search strategies may be partly based on differences in individual workers' temperaments, although it probably also reflects such factors as age, family responsibilities, financial needs, etc., all of which may influence the potential for job mobility.

Dorsey (1977) suggested that those workers who are temporarily "cushioned" from the financial repercussions of redundancy (through receipt of severance pay, unemployment benefits, etc.) and are thus able to pursue a strategy of "waiting" for a suitable job opportunity to arise, may eventually be forced to take an "inferior" job anyway. In fact, the longer a person remained unemployed the lower his re-employment wage was in general. Several other studies have confirmed this, especially for older workers. It is possible therefore that insofar as severance payments (and other income protection measures) do induce terminees



to delay adopting a "realistic" approach to job-search, they may ultimately rebound to the recipient's disadvantage. Similar considerations have led to criticism of certain aspects of the Redundancy Payments Act in Great Britain. Thus Rideout (1969) has argued that the immediate attractiveness of large lump-sum severance payments has, on occasion, led workers to accept redundancy, or even to "volunteer" for it, only to find out afterwards that they had misjudged the job market and were forced into a lower paying job.

### Summary

There is some conflicting evidence on the effect of financial factors, and government policy measures associated with these, on job-search and re-employment success. In particular, whilst there is little direct statistical evidence linking receipt of severance pay with prolonged post-termination unemployment, it seems sensible to assume that the total financial resources available to the terminatee will exert at least some influence on job-search patterns. Unfortunately, relatively few studies have sought to examine this phenomenon in any great depth, but instead have tended to concentrate attention on only a few isolated aspects of the process; e.g., the influence of severance pay or unemployment benefits. There is some evidence to suggest that severance pay is rarely used to finance job-search directly - both Lipsky (1970) and Parker et al. (1971) found that severance pay was commonly used to pay off debts, to meet general living expenses, to take a vacation or to add to savings.

It is probable that receipt of severance pay or of other income at or following termination does reduce the urgency of job-search, and allows the recipient to be more selective in evaluating job offers. This process has both positive and negative aspects. It enables terminees to avoid being forced into employment which does not fully utilize their abilities. On the other hand, it seems clear that many workers face a period of "re-adjustment of expectations" after initial post-redundancy contact with the labour market - this may be especially so for older workers, workers with few transferrable skills, or those whose previous earnings were above the average rate for similar work in the locality. The sooner the readjustment process is completed, the sooner the individual concerned is likely to re-enter the employed labour force again. If provision of unemployment and termination-related financial benefits beyond a certain level serves to prolong this readjustment period, this may be detrimental to the speedy re-deployment of labour resources and even to the long-term interests of recipients themselves.

## APPENDIX

### MULTIPLE REGRESSION MODELS

#### Introduction

In the main text of this paper, a number of different variables have been identified as exerting an influence on the duration of post-termination unemployment. However, some of the simple relationships observed do not, in themselves, allow us to judge the independent effects of each of the factors, because it is clear that many of the "explanatory variables" are correlated with each other. For example, age is strongly correlated with length of service and with the magnitude of severance payments. There is also a strong presumption that age may affect the timing and intensity of job-search, and so on.

A number of studies have sought to isolate the independent influence of several variables using multiple regression analysis. Although this statistical technique does not enable us to separate with complete accuracy the respective influences of variables which are highly correlated, it does reveal with greater clarity which are the predominant determinants of post-redundancy unemployment duration.

Four multiple regression models are examined in some detail in this Appendix. Three are based on single-plant case studies conducted in the U.S.A.; the fourth covers several different plants within one industry and region of Great Britain. The studies were selected for inclusion on two grounds. The results are presented in a similar form, so that some comparisons can be made between the studies; and they are generally regarded in the academic literature as the four most important studies of this type.

#### Summary and Conclusions

1. In terms of offering a total explanation of the post-termination employment experiences of redundant workers, the models must generally be classed as a disappointment. None succeeds in "explaining" any more than 30% of the observed variance in the dependent variable (viz. duration of post-termination unemployment; or, job-finding success within a given time period). MacKay and Reid commented as follows on the weak explanatory power of their regression model:

"The model is trying to explain a complete pattern of human behaviour, and economics as a discipline, and indeed any other of the social sciences, possesses only rudimentary tools for the task."

(MacKay and Reid, 1972, p. 1263)

2. In each model, age was the single most important determinant of unemployment duration following termination. However, age alone accounted for only 10-15% of the variance in the dependent variable;
3. There was some measure of agreement between the studies on the direction of the effect of several other factors, although the magnitude of the effect showed some variation. Thus, men generally suffered a shorter period of unemployment than women; the skilled suffered less unemployment than either the semi-skilled or unskilled; those with better educational qualifications experienced less unemployment than their less educated counterparts, and so on;
4. Only one study (MacKay and Reid, 1972) attempted to measure the influence of job-search techniques and strategy. This revealed that the timing and intensity of search were second only to age in "explanatory power" (and thus were more important than factors such as skill level, marital status, job-market vacancy rates, etc.).

#### I. The West Midlands Engineering Industry Study (MacKay and Reid, 1972)

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The study covers a sample of 613 male employees declared redundant from 23 engineering establishments in the West Midlands of England between 1966-68. The object is to explain variations in the length of unemployment immediately following redundancy in terms of such factors as the personal characteristics of the workers concerned, labour market conditions, job-search strategy employed, and the influence of earnings-related unemployment benefits and lump-sum statutory redundancy payments.

##### The Model

The dependent variable in the analysis is length of unemployment following redundancy (i.e., the number of weeks elapsing between the date of leaving the redundancy firm and the



date of starting new employment). For those workers continuously unemployed up to the date of interview, the latter is taken as the date of new employment; this of course, tends to understate "true" unemployment but is unlikely to be of great significance in this particular study as it involves less than 3% of the total workers in the sample.

The independent variables in the regression analysis are as follows:-

1. Skill-Level:

3 dummy skill variables were included

viz.

- i) Staff dummy (Staff = 1);
- ii) Skilled dummy (Skilled = 1);
- iii) Semi-skilled dummy (Semi-skilled = 1);

2. Age:

Both a linear and a non-linear relationship were tested. The latter was found to be the more appropriate, and was consistent with the view that age becomes important only at certain "threshold points" (the first, a relatively minor one, occurred at age 30 years; the second, much more important, was at age 55 years). Thus, two dummy age variables were included in the final regression:

- iv) Age dummy (55 years and over = 1);
- v) Age dummy (30-54 years = 1);

3. Marital Status/Family Responsibility:

In an earlier study of redundant car workers, MacKay (M.S. 1972) found some evidence that single men and married men with three or more children were under the least financial pressure to return to work (the former because they generally had no dependents to support, and the latter because unemployment benefits, tied to number of dependents, were higher relative to previous wage and to expected future wage). However, despite testing several different measures of family responsibilities, this factor did not prove to be of significance in this study, and only one measure in this category was included in the final regression equation:-

- vi) Marital status dummy (Married = 1);

#### 4. Employment Conditions:

Several possible measures were tested including unemployment rates, percentage vacancies, an index of excess demand (i.e., excess of vacancies over registered unemployed in relation to total numbers unemployed), and the numbers of paid and notified redundancies occurring per quarter. Only one of these (percentage vacancies, measured quarterly for the West Midlands region as a whole) proved to be of any importance:

- vii) Percentage job vacancy rate in West Midlands region;

#### 5. Job-Search Strategies:

Several variables were considered for inclusion in this group including length of notice received, expectation of regaining the redundant job, the number and types of job-search methods used, whether job-search began prior to or following termination, intensity of job-search, and the individual worker's expectations regarding the type of job he feels he is likely to obtain. Only the last three factors emerged as of any significance:

- viii) Timing of Search dummy (Before redundancy = 1);
- ix) Search intensity (number of prospective employers contacted per week of unemployment);
- x) Search Strategy dummy ("snatchers" = 1).

The latter was developed as a measure of future job expectations. Previous research (MacKay, OEP 1972) had led MacKay and Reid to hypothesize that two broad groups of workers could be distinguished according to the different approaches which they adopted to job-search - the two groups were labelled "stickers" and "snatchers".

A "sticker" looks for a new job with attributes comparable to those of the redundant job, and is thus prepared to wait for a time in order to secure the right position. MacKay and Reid distinguish the "sticker" as a person who has held only one job since redundancy (i.e. up to the time of interview - on average, the interviews were held about two years after the terminations involved took place). In contrast, the "snatcher" tends to accept almost immediately whatever employment opportunities are currently available - he thus minimizes the period of unemployment suffered following termination but only at the possible expense of suffering an immediate reduction in his wage, although subsequently the "snatcher" moves on to a more suitable

job when one becomes available. MacKay and Reid identify the "snatcher" as a multiple job-changer who leaves his first post-redundancy job voluntarily.

The allocation of the sampled employees into one or other of these two groups leaves two main residual categories; viz. the continuously unemployed and those forced to change their employment again as a result of further redundancy. For statistical purposes, both are included in the "stickers" group in this analysis (their numbers are small in relation to those properly included in the two original categories).

#### 6. Financial Benefits after Redundancy:

Two measures were included in the final regression equation:

- xi) Unemployment benefits (in £ sterling);
- xii) Statutory lump-sum redundancy payments (in £ sterling);

The inclusion of unemployment benefits poses a problem when considering those employees who did not experience post-redundancy unemployment; to insert zero into the equation for benefits received would be misleading and would unduly bias the measured influence of this particular variable. Therefore, for these workers, the expected unemployment benefit is included instead. Ideally, the most preferred measure for analytical purposes would be the ratio of unemployment benefits to expected income from future employment, rather than just the benefits themselves - but the difficulties in measuring expected future income led MacKay and Reid to eventually abandon this approach.

Several other tests were tried using alternative measures of the redundancy payment variable (for example, introduction of a threshold effect, and a non-linear relation between size of payment and post-termination unemployment) but none yielded any significant difference in the results.

#### The Results

The 12 independent variables (numbers i)-xii), above) finally included in the regression analysis together explained 25% of the variance in the duration of post-redundancy unemployment. The most significant explanatory variables were the "over 55 years" age dummy, the timing of job-search and the intensity of job-search. All were statistically significant at



the 1% level.

Other things equal:-

- i) Workers aged 55 years or more experienced 17 weeks' more unemployment, on average, than those aged under 30 years;
- ii) Workers commencing job-search prior to termination experienced 8 weeks' less unemployment, on average, than those who began their search after termination;
- iii) Each additional prospective employer contacted per week of unemployment reduced unemployment duration by approximately half a week, on average.

All other variables were statistically significant at the 5% level except the skill dummies, the "30-54 years" age dummy, and redundancy pay. For example, married men averaged almost 5½ weeks' less unemployment than single men, and "snatchers" averaged 3½ weeks' less unemployment than "stickers".

II. The Mack Truck Company (Dorsey, 1967)

The company manufactured engines at a plant in Plainfield, New Jersey, and in 1960 the management gave 16 months' notice of their intention to transfer the company's activities to a new plant in Maryland. The workers were offered the opportunity to transfer to the new plant, although it became increasingly obvious as the closure date approached that the company was not interested in obtaining a large number of transferees, especially amongst the production workers. In fact, one of the reasons why the company wished to relocate was the high wage costs at the Plainfield plant. These largely stemmed from the combination of an ineptly administered bonus system and a powerful trade union organization at the plant, which was fully prepared to use its not inconsiderable bargaining powers to exploit this situation. In the circumstances, the company was wary of repeating its past mistakes again; thus, it placed several obstacles in the way of transfer. They made it quite clear that any workers who moved would experience a cut in their wages, and instituted an extremely generous system of severance payments well in excess of contractual obligations for those who chose not to transfer and left the company. The result was that less than 10% of the company's 2,700 employees relocated, and it is the large group who chose

termination rather than transfer with whom Dorsey's regression study is concerned.

### The Model

The dependent variable in Dorsey's analysis is the number of months of unemployment experienced following termination (i.e. before the first post-redundancy job was obtained). The problem of the continuously unemployed is dealt with in a rather different way from MacKay and Reid's treatment - instead of taking the interview date as the date of new employment, Dorsey approximated the date that these workers were likely to find employment by extrapolating a curve showing the number of workers returning to employment each month following termination. This perhaps has a slight advantage over MacKay's method, especially in cases where the time between termination and interview is relatively short (in Dorsey's study interviews were conducted 9-10 months after termination, whereas in the study by MacKay and Reid the time lapse averaged two years). However, it is far from ideal, because it means that all of the continuously unemployed are allocated the same (average) unemployment period.

The independent variables in Dorsey's regression model are as follows:

1. Age:
  - i) Age in years (i.e., measured as a continuous variable);
2. Educational level:

The usual method involves approximating educational attainment by the number of years of formal schooling completed. However, Dorsey felt that it was more relevant to consider differences in education based on the attainment (or otherwise) of certain educational goals, such as a high school diploma, etc. Therefore, educational attainment is classified into six categories:

- a) Under 7 years of schooling;
- b) 7-11 years of schooling;
- c) High School Diploma;
- d) Some college;
- e) College degree;
- f) More than 4 years of college.

### 3. Sex and Family status:

- i) Single female;
- ii) Married female (husband working);
- iii) Married female (husband not working);
- iv) Single male;
- v) Married male (wife working);
- vi) Married male (wife not working).

### 4. Occupation and Skill-Level:

Again, dummy variables are used;

- i) Professional;
- ii) Clerical and white collar;
- iii) Foreman;
- iv) Skilled;
- v) Semi-skilled;
- vi) Unskilled.

### 5. Labour-market conditions:

Dorsey hypothesizes that because the workers terminated were highly concentrated in a few particular localities around Plainfield, workers who lived in those residential areas most affected would find it more difficult to obtain new employment than other workers. Thus, a variable designed to measure this effect was included in the model:

- i) Area impact variable (defined as the number of Mack workers in an area expressed as a percentage of total non-agricultural employment in that area).

### The Results

Dorsey's regression model explains about 30% of the variance in the duration of post-termination unemployment. The regression coefficients of all of the independent variables were statistically significant, except some of those associated with the occupation/skill dummy variables.

#### Other things equal:-

- i) An age difference of ten years was associated with a difference in unemployment duration of just over six weeks i.e., the older a worker was,



the longer he was unemployed, in general. Age was the most important of ~~the~~ independent variables, accounting for about half of the explained variation in the dependent variable;

- ii) Single females, and married males without a working wife experienced the shortest period of unemployment; married females with a working husband experienced the longest unemployment (on average, about five months longer than single females).
- iii) Skilled manual workers suffered the shortest unemployment periods, and professional workers the longest. In fact all manual worker groups experienced shorter unemployment duration than other groups (foremen, clerical and professional).

Dorsey suggests that two variables excluded from the model because of the difficulties of quantitative measurement may have been important in the Mack study:-

- a) The attitudes of local employers to ex-Mack workers (the latter had a bad reputation as "troublemakers" and this seems to have marred their employment prospects);
- b) The attitudes of the workers themselves (they tended to hold out for jobs and wages which were "unrealistic" in view of the skills they possessed; probably this effect was exacerbated by their previous high wage levels under a 'loose' bonus system, although the fact that many terminees possessed non-transferable skills was also important).

### III. The General Foods Corporation (Lipsky, 1970)

Lipsky's study covers an interplant transfer situation involving the closure of four General Foods plants in different locations and the consolidation of production into a single new factory. Unlike the Mack case described in the previous section, the company in this instance were serious about the transfer scheme and produced a comprehensive and generous plan for

its implementation. Lipsky draws his sample from only one of the four plants (viz. the Walter Baker chocolate factory in Dorchester, Massachusetts) and his regression model includes only those workers who chose termination rather than transfer - thus, the group is not a 'typical' one because of the prior self-selection process involved. Lipsky concludes that those choosing to transfer, broadly speaking, tended to be those best equipped to find new jobs themselves, if necessary (for example, professional, technical, managerial and skilled personnel were most likely to move, whilst operatives, labourers and clerical workers were least likely to do so).

The Walter Baker employees were given 2-3 years' advance notice of closure. At its peak the work force numbered 825 persons, but at the time Lipsky's study began (more than 2 years after the first indication of impending closure) only 304 workers remained, of whom 230 employees eligible for transfer had elected termination instead. About half (116) of this group were interviewed - thus, Lipsky's sample is atypical in a further respect, because it obviously does not include those who chose to leave during the early part of the notice period. The local labour market, during most of the time that terminations were taking place, was classified as one of "moderate" unemployment (i.e., 3-6%).

### The Model

The dependent variable in the regression analysis is number of weeks of post-termination unemployment experienced. The eight independent variables are as follows:-

- i) Age;
- ii) Number of dependents;
- iii) Other weekly income (this includes all sources of income except unemployment compensation and severance pay - sources include income from working wife, money from relatives, interest and dividends from savings and investments, etc);
- iv) Sex (0-male; 1-female);
- v) Weekly wage before termination;
- vi) Years of schooling;
- vii) Severance pay;
- viii) No. of years of seniority.

### The Results

The 8 independent variables listed above together explain 19% of the observed variance in post-termination unemployment duration. Age was again the most significant independent variable, accounting for just over half of the explained variation in the dependent variable.

#### Other things equal:-

- i) A 10-year age difference was associated with approximately 3 weeks' difference in unemployment duration i.e., increased age was associated with increased duration of unemployment;
- ii) Each extra dependent was associated with a reduction of 1 week in unemployment duration. "Number of dependents" was the only variable (other than age) whose regression coefficient was statistically significant, and then only at the 10% level. In fact, age and number of dependents together "explained" 16% of the variance in the dependent variable. This indicates the low explanatory power of the remaining variables.

### IV. The Studebaker Corporation (Palen and Fahey, 1968)

The Studebaker automobile plant in South Bend, Indiana was closed early in 1964 after the work force, which numbered in excess of 8,000 persons, was given minimal advance notice of the closure. Two-thirds of those finally terminated were redundant within 3 weeks of the first announcement of closure, and this covered the Christmas holiday period. Moreover, because the company was a major employer in the locality, the closure was primarily responsible for a near-quadrupling of the local unemployment rate to over 9%. The displaced workers thus had little opportunity to make any re-employment plans in advance of the shutdown, and the hourly paid amongst them received no severance pay.

### The Model

Palen and Fahey conducted interviews with a sample of 289 ex-Studebaker employees only four months after termination.



At this time a relatively large proportion were still unemployed. Therefore, Palen and Fahey chose to measure the dependent variable in their regression analysis using a different technique from the one adopted in the other regression studies discussed earlier in this Appendix. Instead of using the independent variables to predict unemployment duration, they were used as predictors of "job-finding success" i.e., whether or not alternative employment had been obtained in the period between termination and date of interview.

The five independent variables were:-

- i) Age (in years);
- ii) Education (number of years of schooling);
- iii) Race (White, Non-white);
- iv) Occupational Status (5 categories viz. skilled, semi-skilled, unskilled, supervisor, and technical/administrative);
- v) Previous Wage-Level (at Studebaker).

### The Results

Age was by far the most important predictor of employment status at time of interview. All variables included in the model succeeded in explaining only 13% of the observed variance in employment status, and age alone contributed over 10%. The next most important variable was educational level i.e., those with a better education found new jobs easier to obtain. None of the remaining independent variables contributed significantly to the explanatory power of the model.

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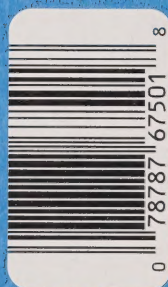












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